

DRAFT of August 15, 1966

TO : Ministry of Finance  
FROM: Air Asia Company Limited

REC'D WAS AUG 29 1966

Air Asia Company Limited is a Chinese company duly formed under the Company Law of the Republic of China, and is a subsidiary, and investment in the Republic of China, of Air America, Inc., such relationship and investment having been formally approved more than a decade ago, by the Government of the Republic of China.

Air America is engaged in flying operations and associated aviation activities in several areas of the world, but particularly throughout the non-Communist areas of the Far East, except in the Republic of China, where its only presence is as an investor in Air Asia. In the course of its operations Air America generates substantial requirements for support services, many of which it contracts to Air Asia.

Air Asia's business has consisted mainly of the furnishing of aviation support services to other air companies. Air Asia owns a large fleet of aircraft ranging from the most modern jet transports to light STOL types, which it charters or leases to others. It owns and operates at Tainan, Taiwan, the largest and most modern aircraft maintenance and modification facility in the Orient, from which it furnishes aircraft repair services to others. It maintains numerous other capabilities in the field of supply, accounting, flight operations, traffic, aviation consulting, et cetera and maintains a large personnel complement which it offers to other aviation companies.

Air Asia furnishes many services to Civil Air Transport Company Limited (aircraft, aircraft maintenance and supply, administrative services, personnel), a number to Cathay Pacific Airways (overhaul of turbine engines, accessories and specialized components for Convair 880s, services of supply and consulting) and miscellaneous services to numerous other air companies. The bulk of Air Asia's business, however, comes from Air America. For some years Air Asia has performed for Air America, under subcontract, large contracts which Air America has been able to obtain primarily from the United States armed forces for the maintenance and modification of aircraft. During that time, Air America has obtained from Air Asia aircraft, aircraft maintenance and supply services, various administrative and support services and personnel.

Personnel furnished to Air America by Air Asia have included mainly Chinese, American, Philippine and Australian nationals. Air Asia has for years maintained an office in the United States, primarily for recruiting American personnel to furnish to its customers, plus the few needed by Air Asia for its own uses. The Philippines being located so close to Taiwan, recruiting of Filipinos has been accomplished from Taiwan as has been the case with Australians and other minority nationals.

Recently Air America's business has expanded greatly, partly in connection with the situation in Southeast Asia. Its largest customer is the United States Government, through various of that Government's departments and agencies.

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Air America recently has written to us that because of the larger number of American nationals that its expanded activities now require it no longer considers it practical to obtain such personnel services through Air Asia and is establishing its own facilities for recruiting and administering the American nationals it requires and that additionally it is terminating its arrangement with Air Asia for American personnel services and will employ directly such persons now furnished by Air Asia. Air America has indicated it will continue to obtain Chinese, and possibly other nationals', services from Air Asia as in the past.

The greatly reduced requirement for the employment of American nationals by Air Asia resulting from Air America's decision has caused us to reevaluate our own position in respect of American nationals. Our needs are for relatively few Americans, over 95% of Air Asia's employees being Chinese nationals. A number of the Americans whose specialized talents we do need are long-time employees. Thus, the minimal recruiting needs of Air Asia do not seem to justify the cost of Air Asia's maintaining either a recruiting service in the United States or the relatively complicated administrative machinery required for compliance with numerous requirements of United States labor legislation. Accordingly, we have secured Air America's agreement that it will furnish to Air Asia the relatively few American personnel which Air Asia will require from time to time and will take over Air Asia's obligations to several of Air Asia's long-time American employees. The arrangement proposed by Air America is that Air Asia will pay directly to the furnished employee the reasonable value of his services to it plus station allowances and will reimburse certain expenses.

To assure that our payroll and other accounting practices under the new plan are appropriate, it is necessary that there be a clear understanding of taxes to which the individual American employees furnished Air Asia will be subject and of the withholding and reporting requirements developing upon Air Asia. The purpose of this letter, then, is to solicit the Ministry's confirmation of our and Air America's interpretations of the source of income test of the Republic of China's tax statutes that the individual will be subject to consolidated income taxes only on the amount paid to him by Air Asia inclusive of station allowances, but exclusive of reimbursable expenses such as those incurred in travelling, and that Air Asia will be required to withhold on and report those same amounts. X

We hope that the explanations given herein are sufficient for your clear understanding of the matter, but we hold ourselves ready for clarification, should any be needed.

We respectfully request and would greatly appreciate an early confirmation of our interpretations to enable us to conclude the prospective arrangements.

AIR ASIA COMPANY LIMITED